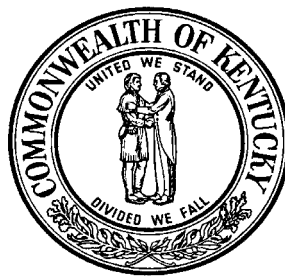


**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kenneth R. Witt, Former Leslie County Judge/Executive

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Members of the Leslie County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Leslie County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY FISCAL COURT

June 30, 2007

Peercy and Gray, PSC was engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky for the purpose of forming an opinion and have disclaimed an opinion on the financial statements. In accordance with OMB Circular A-133, we have also issued a disclaimer of opinion on the compliance requirements that are applicable to Leslie County's major federal program, Public Assistance Grants (CFDA #97.036), for the year ended June 30, 2007.

Based on our assessment of fraud risk, we determined the risk for fraud to be too high and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were not able to access certain fiscal court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation.

Report Comments:

- 2007-01 Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards
- 2007-02 The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures
- 2007-03 The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities
- 2007-04 The Fiscal Court Does Not Maintain Proper Documentation For Capital Assets
- 2007-05 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Controls
- 2007-06 Fiscal Court Should Pay Obligations Timely
- 2007-07 Fiscal Court Should Monitor Ambulance Franchise Fee Collections
- 2007-08 The Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions
- 2007-09 The Fiscal Court Did Not Expend Thirty-Percent Of LGEA Funds On The Coal Haul Road System As Required By KRS 42.455
- 2007-10 The Fiscal Court Did Not Reconcile The Balances Of Projects In Progress In The Local Government Economic Development Fund With The Ending Cash Balance
- 2007-11 Fiscal Court Should Request All Investment Statements And Monitor Their Activity
- 2007-12 The Fiscal Court Did Not Maintain Documentation of FEMA Grant Expenditures

Deposits and Investments:

The Fiscal Court deposits and investments were uninsured and uncollateralized by bank securities as follows:

- \$310,752 unsecured and uninsured as of August 31, 2006

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PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

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Jonathan Miller, Secretary

Finance and Administration Cabinet

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Honorable Jimmy Sizemore, Leslie County Judge/Executive

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We were engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2007 as listed in the table of contents. The financial statements are the responsibility of the Leslie County Fiscal Court.

Based on our assessment of fraud risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with department of homeland security grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were unable to access certain Fiscal Court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from placing any reliance on the financial activities contained in the financial statements of the Fiscal Court.

Because we were unable to place reliance on the accuracy, validity, and completeness of the county's financial statements and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The county has not presented the management's discussion & analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leslie County Fiscal Court for the purpose of forming opinions and have disclaimed opinions on the financial statements. The budgetary comparison schedule, supplementary information required by GASB, is not a required part of the financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Because of the scope limitation

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Members of the Leslie County Fiscal Court

discussed in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the budgetary comparison schedules, the combining fund financial statements, and the schedule of expenditures of federal awards.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2008, on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2007-01 Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards
- 2007-02 The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures
- 2007-03 The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities
- 2007-04 The Fiscal Court Does Not Maintain Proper Documentation For Capital Assets
- 2007-05 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Controls
- 2007-06 Fiscal Court Should Pay Obligations Timely
- 2007-07 Fiscal Court Should Monitor Ambulance Franchise Fee Collections
- 2007-08 The Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions
- 2007-09 The Fiscal Court Did Not Expend Thirty-Percent Of LGEA Funds On The Coal Haul Road System As Required By KRS 42.455
- 2007-10 The Fiscal Court Did Not Reconcile The Balances Of Projects In Progress In The Local Government Economic Development Fund With The Ending Cash Balance
- 2007-11 Fiscal Court Should Request All Investment Statements And Monitor Their Activity
- 2007-12 The Fiscal Court Did Not Maintain Documentation of FEMA Grant Expenditures

Respectfully Submitted,



Percy and Gray PSC

Certified Public Accountants

Louisville, Kentucky

January 24, 2008

LESLIE COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Jimmy Sizemore	County Judge/Executive
Kenneth F. Smith	Commissioner
Billy Ray Coots	Commissioner
Bill Valentine	Commissioner
Johnny Ray Caldwell	Commissioner

Other Elected Officials:

Phillip Lewis	County Attorney
Eugene Roberts	Jailer
James Lewis	County Clerk
Carmoletta Morgan Pace	Circuit Court Clerk
Paul Howard	Sheriff
James Wooten	Property Valuation Administrator
Greg Walker	Coroner

Appointed Personnel:

Mack Muncy	County Treasurer
Nancy Roberts	Finance Officer

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LESLIE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

LESLIE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

Primary Government

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,995,303
Total Current Assets	<u>3,995,303</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	373,267
Construction in Progress	6,349,120
Buildings	782,344
Other Equipment	248,914
Vehicles and Equipment	315,857
Infrastructure Assets - Net of Depreciation	<u>1,669,885</u>
Total Noncurrent Assets	<u>9,739,387</u>
Total Assets	<u>13,734,690</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	145,000
Financing Obligations Payable	<u>10,000</u>
Total Current Liabilities	<u>155,000</u>
Noncurrent Liabilities:	
Bonds Payable	6,615,000
Financing Obligations Payable	<u>475,000</u>
Total Noncurrent Liabilities	<u>7,090,000</u>
Total Liabilities	<u>7,245,000</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,494,387
Restricted For:	
Debt Service	950,961
Capital Projects	98,235
Unrestricted	<u>2,946,107</u>
Total Net Assets	<u><u>\$ 6,489,690</u></u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	<u>Program Revenues Received</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary Government:			
Governmental Activities:			
General Government	\$ 1,982,266	\$ 33,321	\$ 286,914
Protection to Persons and Property	694,484		95,614
General Health and Sanitation	141,968		1,845,215
Social Services	380,190		1,510,541
Recreation and Culture	391,906		
Roads	1,013,495		1,350,734
Debt Service	323,322		
Capital Projects	1,161,288		
Total Primary Government	<u>\$ 6,088,919</u>	<u>\$ 33,321</u>	<u>\$ 5,089,018</u>

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets

Primary Government

Governmental
Activities

\$ (1,662,031)
 (598,870)
 1,703,247
 1,130,351
 (391,906)
 337,239
 (323,322)
(1,161,288)

(966,580)

430,727
 99,856
 672,224
 62,035
 120,581
100,384

1,485,807
 519,227
5,970,463

\$ 6,489,690

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	<u>Special Revenue Funds</u>			
	<u>General Fund</u>	<u>Road Fund</u>	<u>Local Government Economic Assistance Fund</u>	<u>Local Government Economic Development Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 663,189	\$ 344,401	\$ 565,237	\$ 1,035,480
Total Assets	<u>\$ 663,189</u>	<u>\$ 344,401</u>	<u>\$ 565,237</u>	<u>\$ 1,035,480</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 131,840	\$ 37,182	\$ 186,277	\$ 1,110
Capital Projects Fund				
Debt Service Fund				
Unreserved:				
General Fund	531,349			
Special Revenue Funds		307,219	378,960	1,034,370
Total Fund Balances	<u>\$ 663,189</u>	<u>\$ 344,401</u>	<u>\$ 565,237</u>	<u>\$ 1,035,480</u>

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Debt Service Fund</u>		
<u>Detention Facility Project Fund</u>	<u>Detention Facility Bond Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 98,235	\$ 490,424	\$ 460,537	\$ 337,800	\$ 3,995,303
<u>\$ 98,235</u>	<u>\$ 490,424</u>	<u>\$ 460,537</u>	<u>\$ 337,800</u>	<u>\$ 3,995,303</u>
\$ 98,235	\$ 490,424	\$ 460,537	\$ 34,477	\$ 390,886
				98,235
				950,961
				531,349
			303,323	2,023,872
<u>\$ 98,235</u>	<u>\$ 490,424</u>	<u>\$ 460,537</u>	<u>\$ 337,800</u>	<u>\$ 3,995,303</u>

Reconciliation of the Balance Sheet -Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,995,303
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	11,010,142
Accumulated Depreciation	(1,270,755)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year - Bonds, Notes, and Lease Principal Payments	(155,000)
Due In More Than One Year - Bonds, Notes, and Lease Principal Payments	(7,090,000)
Net Assets Of Governmental Activities	<u>\$ 6,489,690</u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Special Revenue Funds			
	General Fund	Road Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund
REVENUES				
Taxes	\$ 854,198	\$ 77,343	\$	\$
In Lieu Tax Payments	61,533			
Excess Fees	62,035			
Intergovernmental	286,914	1,350,734	1,845,215	1,510,541
Charges for Services	33,321			
Miscellaneous	24,463	95,861	257	
Interest	2,314	3,285	3,425	9,367
Total Revenues	<u>1,324,778</u>	<u>1,527,223</u>	<u>1,848,897</u>	<u>1,519,908</u>
EXPENDITURES				
General Government	711,761		57,568	
Protection to Persons and Property			84,624	10,684
General Health and Sanitation			138,968	
Social Services			267,764	
Recreation and Culture	5,008		367,624	
Roads		804,405	137,894	
Debt Service		96,620	12,538	
Capital Projects	135,422	268,579		2,022,294
Administration	443,754	188,173	391,575	30,065
Total Expenditures	<u>1,295,945</u>	<u>1,357,777</u>	<u>1,458,555</u>	<u>2,063,043</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>28,833</u>	<u>169,446</u>	<u>390,342</u>	<u>(543,135)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	110,000		130,000	
Transfers To Other Funds	(61,949)	(184,322)	(629,811)	(130,000)
Total Other Financing Sources (Uses)	<u>48,051</u>	<u>(184,322)</u>	<u>(499,811)</u>	<u>(130,000)</u>
Net Changes in Fund Balance	76,884	(14,876)	(109,469)	(673,135)
Fund Balances - Beginning	<u>586,305</u>	<u>359,277</u>	<u>674,706</u>	<u>1,708,615</u>
Fund Balances - Ending	<u>\$ 663,189</u>	<u>\$ 344,401</u>	<u>\$ 565,237</u>	<u>\$ 1,035,480</u>

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Capital Projects Fund	Debt Service Fund	Debt Service Fund		
Detention Facility Project Fund	Detention Facility Bond Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 209,733	\$ 1,141,274
				61,533
				62,035
			95,614	5,089,018
				33,321
				120,581
45,736	33,645	429	2,183	100,384
45,736	33,645	429	307,530	6,608,146
				769,329
			573,962	669,270
			3,000	141,968
			103,942	371,706
				372,632
				942,299
22,065	290,195	82,580		503,998
3,463,729			6,000	5,896,024
7	58,230	7	89,290	1,201,101
3,485,801	348,425	82,587	776,194	10,868,327
(3,440,065)	(314,780)	(82,158)	(468,664)	(4,260,181)
	1,280,000			1,280,000
1,110,973		542,456	223,626	2,117,055
	(1,110,973)			(2,117,055)
1,110,973	169,027	542,456	223,626	1,280,000
(2,329,092)	(145,753)	460,298	(245,038)	(2,980,181)
2,427,327	636,177	239	582,838	6,975,484
\$ 98,235	\$ 490,424	\$ 460,537	\$ 337,800	\$ 3,995,303

The accompanying notes are an integral part of the financial statements.

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**LESLIE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

LESLIE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds \$ (2,980,181)

Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	4,831,691
Depreciation Expense	(136,004)
Net Book Value of Disposed Assets	(10,000)
Disposal of Asset Held For Resale	(86,955)

The Issuance Of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources To Governmental Funds, While Financing Obligations Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.

Bond Proceeds	(1,280,000)
Bond Payments	80,000
Financing Obligation Payments	100,676

Change in Net Assets of Governmental Activities	\$ 519,227
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Leslie County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

Blended Component Units

The following legally separate organization provided its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Leslie County Public Properties Corporation

The Leslie County Fiscal Court (Fiscal Court) established the Leslie County Public Properties Corporation (Corporation) as a separate entity for the purpose of financing the construction and installation of public projects in furtherance of the proper public purposes of Leslie County. The Corporation's governing body consists of the members of the Fiscal Court, which includes the Leslie County Judge/Executive and the three magistrates and has perpetual existence. Since the Fiscal Court has complete authority over this entity this makes it a component unit of the county. The financial information for the Leslie County Public Properties Corporation is blended within the Leslie County's financial statements.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Leslie County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Leslie County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Leslie County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund-The primary purpose of this fund is to account for general health and sanitation, social services and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severances taxes, landfill user fees, and recreational area user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development Fund - The purpose of this fund is to account for projects funded by Local Government Economic Development funds. The primary sources of revenue are grants received from the Governor's Office for Local Development.

Detention Facility Project Fund – the purpose of this fund is to account for the construction of the new detention center.

Detention Facility Bond Fund – the purpose of this fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Public Properties Corporation Fund – the purpose of this fund is to account for the activities of the Leslie county Public Properties Corporation, a blended component unit of the county. The Leslie County Public Properties Corporation issued debt to build a Judicial Center facility.

The primary government also has the following non-major funds: Jail Fund, Senior Citizens Fund, 911 Fund, and the Community Development Block Grant Waterline Fund.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Local Government Economic Development Fund, Senior Citizens Fund, 911 Fund, and Community Development Block Grant Waterline Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Funds:

The Leslie County Public Properties Corporation Fund and the Detention Facility Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund:

The Detention Facility Project Fund is presented as a capital projects fund. Capital project funds are to account for the construction of new facilities.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, Construction In Progress and certain land improvements are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 50,000	10-20
Buildings	All	25-40
Building Improvements	\$ 50,000	25-40
Other Equipment	\$ 2,500	5-20
Vehicles and Equipment	\$ 5,000	5-10
Infrastructure	\$ 50,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Leslie County Public Properties Corporation Fund (blended component unit), Leslie County Detention Facility Project Fund, and the Leslie County Detention Facility Bond Fund are not budgeted by the county treasurer. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Hyden-Leslie County Water and Sewer District, Extension District, Library District, and Health District are considered related organizations of Leslie County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Elk Hill-Leslie Industrial Development Authority and Hyden-Leslie Industrial Development Authority are considered joint ventures of the Leslie County Fiscal Court:

Note 2. Deposits

The County maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County's deposits in accordance with the security agreement.

- Uninsured and unsecured \$310,753

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 205,000	\$ 31,800	\$	\$ 236,800
Construction In Progress	2,540,365	3,808,755		6,349,120
Total Capital Assets Not Being Depreciated	2,745,365	3,840,555		6,585,920
Capital Assets, Being Depreciated:				
Land Improvements	151,631			151,631
Buildings	1,015,414	286,200		1,301,614
Other Equipment	503,079	226,685		729,764
Vehicles and Equipment	405,432	173,251	(73,000)	505,683
Infrastructure	1,430,530	305,000		1,735,530
Total Capital Assets Being Depreciated	3,506,086	991,136	(73,000)	4,424,222
Less Accumulated Depreciation For:				
Land Improvements	(7,582)	(7,582)		(15,164)
Buildings	(498,953)	(20,317)		(519,270)
Other Equipment	(452,430)	(28,420)		(480,850)
Vehicles and Equipment	(200,910)	(51,916)	63,000	(189,826)
Infrastructure	(37,876)	(27,769)		(65,645)
Total Accumulated Depreciation	(1,197,751)	(136,004)	63,000	(1,270,755)
Total Capital Assets, Being Depreciated, Net	2,308,335	855,132	(10,000)	3,153,467
Governmental Activities Capital Assets, Net	\$ 5,053,700	\$ 4,695,687	\$ (10,000)	\$ 9,739,387

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>		
General Government	\$	11,836
Protection to Persons and Property		25,214
Social Services		8,484
Recreation and Culture		19,274
Roads, Including Depreciation of General Infrastructure Assets		<u>71,196</u>
Total Depreciation Expense - Governmental Activities	\$	<u>136,004</u>

Note 4. Long-term Debt

A. Leslie County Public Properties Corporation General Obligation Refunding Bonds Series 2003

On September 19, 2003 the Leslie County Public Properties Corporation issued \$940,000 General Obligation Refunding Bonds, Series 2003 for the purpose of advance refunding of all outstanding County of Leslie General Obligation Bonds. The bonds mature serially through February 1, 2008 and require annual principal payments due on February 1. Semi-annual payments of trustee fees and interest payments at a variable interest rate ranging from 1.25% to 2.75% are due on February 1 and August 1 of each year. Bonds outstanding as of June 30, 2007 were \$30,000. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 30,000	\$ 825
Totals	<u>\$ 30,000</u>	<u>\$ 825</u>

B. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2006

On December 27, 2005 the Leslie County Public Properties Corporation issued \$5,450,000 General Obligation Improvement Bonds, Series 2005 for the purpose of constructing a detention center. The bonds mature serially through December 1, 2035 and require annual principal payments due on December 1 with the first payment due December 1, 2007. Semi-annual payments of interest at an interest rate of 4.625% are due on June 1 and December 1 of each year with the first payment due June 1, 2007. Bonds outstanding as of June 30, 2007 were \$5,450,000. Future principal and interest requirements are:

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

B. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2005

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 95,000	\$ 254,066
2009	95,000	249,672
2010	100,000	245,163
2011	105,000	240,422
2012	110,000	235,450
2013-2017	625,000	1,094,578
2018-2022	780,000	933,281
2023-2027	990,000	727,588
2028-2032	1,270,000	460,750
2033-2036	1,280,000	125,636
Totals	<u>\$ 5,450,000</u>	<u>\$ 4,566,606</u>

C. Kentucky Area Development Districts (KADD) Financing Trust - Jail Construction Project

On October 6, 2006, the Leslie County Fiscal Court entered into an agreement with KADD Financing Trust for the construction of a new detention facility. Total principal was \$495,000 and requires annual principal payments due on October 1 beginning on October 1, 2007 for a period of thirty years. Interest payments are due semi-annually at a variable interest rate of 3.400 % and 5.000% due on April 1 and October 1 beginning on April 1 2007 for a period of thirty years. Principal outstanding as of June 30, 2007 was \$485,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 10,000	\$ 23,110
2009	10,000	22,740
2010	10,000	22,350
2011	10,000	21,945
2012	10,000	21,515
2013-2017	50,000	100,813
2018-2022	75,000	86,158
2023-2027	90,000	66,850
2028-2032	110,000	42,000
2033-2036	110,000	11,499
Totals	<u>\$ 485,000</u>	<u>\$ 418,980</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

D. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2006

On November 15, 2006 the Leslie County Public Properties Corporation issued \$1,280,000 General Obligation Improvement Bonds, Series 2006 for the purpose of constructing a detention center. The bonds mature serially through December 1, 2035 and require annual principal payments due on December 1 with the first payment due December 1, 2007. Semi-annual payments of interest at a variable interest rate between 4.0% to 4.70% are due on June 1 and December 1 of each year with the first payment due June 1, 2007. Bonds outstanding as of June 30, 2007 were \$1,280,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 20,000	\$ 57,770
2009	20,000	56,970
2010	25,000	56,070
2011	25,000	55,070
2012	25,000	54,070
2013-2017	145,000	252,693
2018-2022	185,000	216,538
2023-2027	235,000	168,428
2028-2032	300,000	106,916
2033-2036	300,000	28,905
Totals	<u>\$ 1,280,000</u>	<u>\$ 1,053,430</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds:					
Revenue	\$ 110,000	\$	\$ 80,000	\$ 30,000	\$ 30,000
Improvement	5,450,000	1,280,000		6,730,000	115,000
Financing Obligations	585,676		100,676	485,000	10,000
Governmental Activities					
Long-term Liabilities	<u>\$ 6,145,676</u>	<u>\$ 1,280,000</u>	<u>\$ 180,676</u>	<u>\$ 7,245,000</u>	<u>\$ 155,000</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Interest Included in Debt Service

Debt Service on the Statement of Activities includes the following: Long-term interest paid of \$23,960 for the KADD Financing Trust obligation and \$4,222 for other financing obligations, long-term interest paid of \$2,825 for the Leslie County Public Properties Corporation General Obligation Refunding Bonds and \$290,195 for the Leslie County Public Properties Corporation General Obligation Improvement Bonds.

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirements Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2007, Leslie County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Subsequent Events

On June 14, 2007, the Leslie County Fiscal Court approved an Occupational Tax Ordinance. The county will tax net profit or compensation at a rate of 1 % beginning August 1, 2007.

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LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 750,500	\$ 750,500	\$ 854,198	\$ 103,698
In Lieu Tax Payments	71,430	71,430	61,533	(9,897)
Excess Fees	3,000	62,526	62,035	(491)
Intergovernmental Revenue	133,850	258,658	312,407	53,749
Charges for Services	17,880	17,880	33,321	15,441
Miscellaneous	41,901	41,901	24,463	(17,438)
Interest	1,300	1,300	2,314	1,014
Total Revenues	1,019,861	1,204,195	1,350,271	146,076
EXPENDITURES				
General Government	655,875	917,523	843,982	73,541
Protection to Persons and Property	3,714	6,915	3,201	3,714
Recreation and Culture	16,000	16,000	5,008	10,992
Administration	601,347	520,832	469,247	51,585
Total Expenditures	1,276,936	1,461,270	1,321,438	139,832
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(257,075)	(257,075)	28,833	285,908
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	110,000	110,000	110,000	
Transfers To Other Funds	(202,925)	(202,925)	(61,949)	140,976
Total Other Financing Sources (Uses)	(92,925)	(92,925)	48,051	140,976
Net Changes in Fund Balance	(350,000)	(350,000)	76,884	426,884
Fund Balance - Beginning	350,000	350,000	586,305	236,305
Fund Balance - Ending	\$ 0	\$ 0	\$ 663,189	\$ 663,189

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 54,500	\$ 54,500	\$ 77,343	\$ 22,843
Intergovernmental Revenue	1,035,650	1,249,114	1,350,734	101,620
Miscellaneous	7,500	97,042	95,861	(1,181)
Interest	2,500	2,500	3,266	766
Total Revenues	1,100,150	1,403,156	1,527,204	124,048
EXPENDITURES				
Roads	666,350	1,129,957	1,073,662	56,295
Debt		94,220	94,220	
Administration	459,257	204,436	188,173	16,263
Total Expenditures	1,125,607	1,428,613	1,356,055	72,558
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(25,457)	(25,457)	171,149	196,606
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(184,543)	(184,543)	(184,322)	221
Total Other Financing Sources (Uses)	(184,543)	(184,543)	(184,322)	221
Net Changes in Fund Balance	(210,000)	(210,000)	(13,173)	196,827
Fund Balance - Beginning	210,000	210,000	357,564	147,564
Fund Balance - Ending	\$ 0	\$ 0	\$ 344,391	\$ 344,391

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,556,630	\$ 1,682,012	\$ 1,845,215	\$ 163,203
Miscellaneous	100	100	257	157
Interest	2,500	2,500	3,425	925
Total Revenues	1,559,230	1,684,612	1,848,897	164,285
EXPENDITURES				
General Government	31,689	59,500	57,568	1,932
Protection to Persons and Property	61,385	90,290	84,624	5,666
General Health and Sanitation	205,490	244,970	138,968	106,002
Social Services	256,900	298,343	267,764	30,579
Recreation and Culture	381,000	521,290	367,624	153,666
Roads	288,500	329,500	137,894	191,606
Debt Service		13,538	12,538	1,000
Administration	804,191	597,106	391,575	205,531
Total Expenditures	2,029,155	2,154,537	1,458,555	695,982
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(469,925)	(469,925)	390,342	860,267
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			130,000	130,000
Transfers To Other Funds	(130,075)	(130,075)	(629,811)	(499,736)
Total Other Financing Sources (Uses)	(130,075)	(130,075)	(499,811)	(369,736)
Net Changes in Fund Balance	(600,000)	(600,000)	(109,469)	490,531
Fund Balance - Beginning	600,000	600,000	674,706	74,706
Fund Balance - Ending	\$ 0	\$ 0	\$ 565,237	\$ 565,237

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,534,795	\$ 2,259,953	\$ 1,526,220	\$ (733,733)
Interest	3,000	3,000	9,367	6,367
Total Revenues	1,537,795	2,262,953	1,535,587	(727,366)
EXPENDITURES				
Protection to Persons and Property		10,684	10,684	
Capital Projects	3,006,339	3,675,069	2,022,294	1,652,775
Administration		45,744	45,744	
Total Expenditures	3,006,339	3,731,497	2,078,722	1,652,775
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,468,544)	(1,468,544)	(543,135)	925,409
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(130,000)	(130,000)
Total Other Financing Sources (Uses)			(130,000)	(130,000)
Net Changes in Fund Balance	(1,468,544)	(1,468,544)	(673,135)	795,409
Fund Balance - Beginning	1,468,544	1,468,544	1,708,615	240,071
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,035,480	\$ 1,035,480

LESLIE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

	<u>Revenues</u>	<u>Expenditures</u>	<u>Beginning Fund Balance</u>
Reconciliation to the General Fund			
Budgetary Comparison Schedule	\$ 1,350,271	\$ 1,321,438	
To correct direct deposit error	<u>(25,493)</u>	<u>(25,493)</u>	
Statement of Revenues, Expenditures and Changes in Fund Balance-Modified Cash Basis	<u>1,324,778</u>	<u>1,295,945</u>	
Reconciliation to the Road Fund			
Budgetary Comparison Schedule	\$ 1,527,204	\$ 1,356,055	\$ 357,564
To record KADD lease transactions not budgeted	<u>19</u>	<u>1,722</u>	<u>1,713</u>
Statement of Revenues, Expenditures and Changes in Fund Balance-Modified Cash Basis	<u>\$ 1,527,223</u>	<u>\$ 1,357,777</u>	<u>\$ 359,277</u>
Reconciliation to the LGED Fund			
Budgetary Comparison Schedule	\$ 1,535,587	\$ 2,078,722	
To correct direct deposit error	<u>(15,679)</u>	<u>(15,679)</u>	
Statement of Revenues, Expenditures and Changes in Fund Balance-Modified Cash Basis	<u>\$ 1,519,908</u>	<u>\$ 2,063,043</u>	

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LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2007

LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	<u>Special Revenue Funds</u>			Total
	Jail	Senior	911	Non-Major
	Fund	Citizens	Fund	Governmental
		Fund		Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,119	\$ 30,889	\$ 305,792	\$ 337,800
Total Assets	<u>\$ 1,119</u>	<u>\$ 30,889</u>	<u>\$ 305,792</u>	<u>\$ 337,800</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 19,450	\$ 10,262	\$ 4,765	\$ 34,477
Unreserved:				
Special Revenue Funds	<u>(18,331)</u>	<u>20,627</u>	<u>301,027</u>	<u>303,323</u>
Total Fund Balances	<u>\$ 1,119</u>	<u>\$ 30,889</u>	<u>\$ 305,792</u>	<u>\$ 337,800</u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Special Revenue Funds			
	Jail Fund	Senior Citizens Fund	911 Fund	Community Development Block Grant Waterline Fund
REVENUES				
Taxes	\$	\$ 109,112	\$ 100,621	\$
Intergovernmental	82,614		10,000	3,000
Interest	74		2,109	
Total Revenues	82,688	109,112	112,730	3,000
EXPENDITURES				
Protection to Persons and Property	309,478		264,484	
General Health and Sanitation				3,000
Social Services		103,942		
Capital Projects	6,000			
Administration	13	59	89,218	
Total Expenditures	315,491	104,001	353,702	3,000
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(232,803)	5,111	(240,972)	
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	223,626			
Total Other Financing Sources (Uses)	223,626			
Net Changes in Fund Balances	(9,177)	5,111	(240,972)	
Fund Balances - Beginning	10,296	25,778	546,764	
Fund Balances - Ending	\$ 1,119	\$ 30,889	\$ 305,792	\$ 0

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Total Non-Major Governmental Funds	
<hr/>	
\$	209,733
	95,614
	2,183
	<hr/>
	307,530
	<hr/>
	573,962
	3,000
	103,942
	6,000
	89,290
	<hr/>
	776,194
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	(468,664)
	<hr/>
	223,626
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	223,626
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	(245,038)
	582,838
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\$	337,800
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The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2007

LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Passed through KY River Area Development District:		
USDA Cash-in-Lieu of Commodities Program		
(CFDA #10.570)	Unavailable	\$ 39,909
Total U.S. Department of Agriculture		39,909
U.S. Department of Commerce		
Passed through Other Agencies:		
National Oceanic and Atmospheric Administration		
Passed Through the Center for Rural Development		
PRIDE Grants		
Community Grant		
(CFDA #11.469)	CF05-22	6,500
Super Grant		
(CFDA #11.469)	SG06-07	49,600
Total U.S. Department of Commerce		56,100
U.S. Department of Housing and Urban Development		
Passed through Commonwealth of Kentucky		
Community Development Block Grant		
Waterline Project		
(CFDA #14.228)	B-01-57	3,000
Total U.S. Department of Housing and Urban Development		3,000
U.S. Department of the Interior		
Passed through Commonwealth of Kentucky		
Payments in Lieu of Taxes		
National Forestry Receipts		
(CFDA #15.226)	Unavailable	77,343
Total U.S. Department of the Interior		77,343
U.S. Election Assistance Commission		
Passed through Commonwealth of Kentucky		
Board of Elections		
Help America Vote Act		
(CFDA #90.401)	Unavailable	99,315
Total U.S. Election Assistance Commission		99,315
U.S. Department of Health and Human Services		
Passed through KY River Area Development District:		
Title III B,C,F Grant and Homecare Program		
(CFDA #93.044, 93.045, 93.046)	Unavailable	64,092
Total U.S. Department of Health and Human Services		64,092

LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
 U.S. Department of Homeland Security		
Passed through Commonwealth of Kentucky:		
Department for Military Affairs		
Public Assistance Grants		
June 2003 Flooding		
(CFDA #97.036)	FEMA-1475-DR-KY	\$ 57,587
April 2007 Severe Storms		
(CFDA #97.036)	FEMA-1703-DR-KY	230,346
Emergency Management Performance Grants		
(CFDA # 97.042)	Unavaliabale	<u>9,439</u>
Total U.S. Department of Homeland Security		<u>297,372</u>
 TOTAL FEDERAL AWARDS		 <u><u>\$ 637,131</u></u>

LESLIE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Leslie County, Kentucky and is presented on a cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Kenneth R. Witt, Former Leslie County Judge/Executive
The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 24, 2008, wherein, we disclaimed an opinion on the financial statements as explained in the independent auditor's report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leslie County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Leslie County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-07, 2007-08, 2007-10, and 2007-11.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

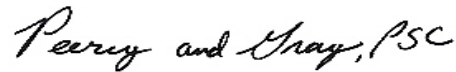
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Leslie County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: 2007-06 and 2007-9.

Leslie County's responses to the findings identified in the schedule of findings and questioned costs are included in the schedule. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC
Certified Public Accountants

January 24, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



PEEROY AND GRAY, PSC

Certified Public Accountants

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The Honorable Kenneth R. Witt, Former Leslie County Judge/Executive
The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We were engaged to audit the compliance of Leslie County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Leslie County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County's management.

As further outlined in finding 2007-12, we were unable to obtain sufficient documentation supporting the compliance of Leslie County, Kentucky, with its Public Assistance Grants CFDA# 97.036, major program regarding all applicable compliance requirements, nor were we able to satisfy ourselves as to Leslie County's compliance with those requirements by other auditing procedures.

Because of the audit scope limitation described in the preceding paragraph and in finding 2007-12, our work was not sufficient to enable us to express and we do not express an opinion on Leslie County's compliance with requirements applicable to the Public Assistance Grants (CFDA# 97.036) major program.

Internal Control Over Compliance

The management of Leslie County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-12 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider item 2007-12 to be a material weakness.

Leslie County's response to the finding identified in our audit is included in the accompanying schedule of findings and questioned costs. We did not audit Leslie County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Peercy and Gray, PSC
Certified Public Accountants

January 24, 2008

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2007

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a disclaimer of opinion on the governmental activities, each major fund, and aggregate remaining fund information of Leslie County, Kentucky.
2. Nine (9) significant deficiencies relating to the internal control over financial reporting are reported in the Independent Auditor's Report. All are considered material weaknesses.
3. Two (2) instances of noncompliance material to the financial statements of Leslie County were disclosed during the audit.
4. One (1) significant deficiency and material weakness relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Leslie County expresses a disclaimer of opinion on Public Assistance Grants CFDA #97.036
6. There is one (1) audit finding relative to the major federal award program for Leslie County reported in Part C of this schedule.
7. The program tested as a major program was: Public Assistance Grants CFDA #97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Leslie County was not determined to be a low-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

2007-01 Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards

During our review of the Schedule of Expenditures of Federal Awards (SEFA), we noted multiple significant errors. Specifically, we noted the following:

- Federal expenditures were not included on the schedule. Only expenditures recorded in certain expense accounts were included. Other expenses for additional materials and equipment costs included on requests for reimbursement submitted to the reimbursing agency were not included on the SEFA. The amount was undeterminable.
- The amounts listed on the SEFA were the total amounts expended, as the federal portion was not segregated.
- No record was kept showing revenue and expenditures on a program basis.
- There was no proof of investigation of suspension or debarment of vendors.
- The requests for reimbursement were never reconciled to the amounts recorded in the appropriations ledger.

OMB Circular A-133, Subpart C-Auditees; Section _____.300 Auditee responsibilities states,

The auditee shall:

- Identify, in its accounts, all Federal awards received and expended, and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with Section _____.310.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-01 Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards (Continued)

The effect of these errors on the FY 07 SEFA, together with the control environment of this entity, has led the auditors to question whether all federal grant awards and expenditures were included on the SEFA.

We recommend Fiscal Court follow OMB Circular A-133 for preparation of the government's SEFA and review for completeness. We further recommend procedures be put in place to ensure all federal grants awarded and expenditures paid are included and reconciled to the records of the Fiscal Court.

Response: We will comply.

2007-02 The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures

During our test of expenditures, we were unable to determine if payments were accurately paid or posted as source documentation, such as authorizations, invoices and receipts were missing. As noted below, we found the following:

- Of the \$20,126 in credit card purchases charged during the year, we could not determine the appropriateness of \$9,076 due to lack of supporting documentation.
- There was \$1,180 charged in Chicago during August 2006 for hotel accommodations for a non-employee. The former Judge/Executive attended the NACO conference at the same time. Auditors verified that this person was not an employee of the county through payroll records and inquiry.

Of the \$11,051 in credit card bills that had supporting documentation, the following exceptions were found:

- There was \$110 in fuel receipts with no evidence of the vehicle filled.
- There was \$1,134 charged for meals that did not contain purpose and attendees.
- Lodging bills included a total of \$61 for in-room movies.
- There was sales tax paid of \$50.
- There was \$1,991 of supporting documentation that only included a packing slip.

Additionally:

- Two checks were written and issued without any supporting documentation.

While we were inquiring about the Purchase/Procurement System used and subsequently testing disbursements, we were told that invoices that are maintained are not attached to the checks presented to the Judge and Treasurer for their signatures. The list of expenditures is, however, approved by fiscal court before payment.

We recommend that the County Attorney investigate and pursue reimbursement of the expenditures of \$1,180 for hotel accommodations paid by the county for a non-employee.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-02 The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures (Continued)

We recommend the Fiscal Court maintain detailed supporting documentation for all expenditures of the county and only those expenditures related to official county business be approved and paid. Furthermore, we recommend this supporting documentation be attached to the approved purchase order as required by the administrative code prior to payment. Additionally, the invoices should also be attached to the checks submitted to the County Judge/Executive and County Treasurer to review and compare prior to signature.

Response: We will comply.

2007-03 The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities

During our audit testing, several inequities between the administrative policies and accounting policies were noted:

- The county has three constables. All are paid \$420 per month. Two of the three constables are issued a 1099-MISC Form for the total county payments as independent contractors. The third constable remits some receipts for reimbursement of gas and auto repairs. In 2006, this constable remitted receipts totaling \$2,851. It was noted that his wife signed several of these receipts. There was no mileage log maintained to record travel required by the county. The duties of a constable require minimal time. Furthermore, he was not issued a 1099 for the difference of \$2,189. For 2007, all constables will receive a 1099 for \$5,040, the full amount earned.
- The county has three commissioners. All three commissioners are offered the same pre-tax health insurance benefit as all other employees within the county according to the Administrative Code. The county's policy is to pay for the employee's coverage, \$337 per month in 2006, or the employee may opt to waive the benefit. There is no cafeteria plan in effect. In 2006, one commissioner accepted the health insurance benefit through the normal payroll process. The other two commissioners were paid \$337 per month. This amount was not included on their W-2's. They were issued 1099's, but the amount was reduced by the amount the commissioners paid for their health insurance acquired elsewhere. The county does not have documentation of the cost of this other health insurance. One commissioner received \$4,295 in added compensation during 2006, but received a 1099 for \$1,409. The other commissioner received \$4,295 in added compensation during 2006, but received a 1099 for \$3,958. This practice was not continued under the new administration in 2007.
- There are also two county employees that received cash instead of health insurance in 2006, the former Deputy Judge/Executive/Finance Officer and a maintenance employee. The former Deputy Judge/Executive/Finance Officer was issued a 1099, but the amount was reduced from the actual amount received of \$4,295 to \$1,892, an undocumented difference of \$2,403. The maintenance employee did not receive a 1099 for the \$829 he received for his health insurance supplement. This cash option was not available to all county employees. This practice was not continued under the new administration in 2007.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-03 The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities (Continued)

We recommend that fiscal court establish uniform policies for all employees of the county, and include these policies in the Administrative Code. We also recommend that fiscal court contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability for 1099 forms issued to employees in prior years. We further recommend the County Attorney or Attorney General review these transactions to determine whether restitution should be made.

Response: Item corrected.

2007-04 The Fiscal Court Does Not Maintain Proper Documentation For Capital Assets

The County does not maintain proper documentation for all capital assets. During our review of 159 transactions, we found the following:

- Of the 159 items tested, 64 contained items that should be capitalized per the Fiscal Court's policy. Included in these items were expenditures for construction in progress. No construction in progress was recorded on the Fiscal Court's listing.
- Two items were deposit corrections which should have been recorded with an offsetting entry in the revenue account.
- One item donated had no acknowledgement of receipt from the donee.
- The cost of one item was listed on the fixed/capital asset listing at a cost different from the cost on the supporting documentation.

The County cannot determine insurance needs or if property (capital assets) is owned without proper documentation. The Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual, issued by the Governor's Office for Local Development (GOLD), outlines requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

The County did not maintain proper supporting documentation for capital assets and did not comply with capital asset requirements as established by GOLD.

We recommend the County maintain all capital asset documentation as required in GOLD's policy manual and the County's Capitalization Policy.

Response: We will comply.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-05 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Controls

During our audit, we noted at least seven different signatures of the former County Judge/Executive's name. These were noted on checks written for all funds (dual signatures are required), purchase orders, budget and budget amendments, etc. The former Judge gave written permission to two employees to sign his name. This is considered management override of controls.

The current Judge/Executive also gave written permission to two employees to sign his name in his absence. There were three distinct signatures noted on checks written. This practice was discontinued after auditors advised the current Judge that this was inappropriate.

Proper accounting procedures and internal control policies should be in place. The failure to adequately provide or properly monitor financial management activities increases the risk of materially misstated financial statements due to errors or omissions from improper reporting or fraud. Failure to provide proper oversight of internal controls leaves the county at risk. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

We recommend the fiscal court design and implement procedures when the county Judge/Executive is absent. Any employee given the authority by fiscal court to sign checks should be added to the bank's records as an approved check signer, and sign their own name on the checks.

Response: Item corrected.

2007-06 Fiscal Court Should Pay Obligations Timely

During our audit testing, we noted that two invoices were submitted to the county for payment and not paid within 30 working days as required by KRS 65.140. Pursuant to KRS 65.140 all bills for goods or services shall be paid within 30 days of receipt of vendor's invoice except when payment is delayed because purchaser had made written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

We recommend that fiscal court comply with KRS 65.140 and ensure payment of outstanding obligations within 30 days.

Response: We will comply.

2007-07 Fiscal Court Should Monitor Ambulance Franchise Fee Collections

On July 10, 1995 the county entered into a lease agreement with a private company for the purpose of providing emergency ambulance service. This lease agreement was terminated on June 30, 1998 and another company signed a new lease on July 30, 1998. The terms of both leases stipulate that the private companies must pay the fiscal court \$500 per month for consideration of the lease equipment and property. Delinquent payments totaled \$24,000 for the prior provider and \$18,000 for the second provider as of June 30, 2003. Neither private company's obligation of payment due has been exonerated by fiscal court action. In addition, there were no written procedures related to the collection of delinquent payments. In the current lease agreement, signed November 26, 2003, the payment to fiscal court is to be \$25,000 over a four-year period. Delinquent payments at June 30, 2007 total \$22,396 for the new provider.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-07 Fiscal Court Should Monitor Ambulance Franchise Fee Collections (Continued)

We recommend the fiscal court review the terms of the agreement and the status of the amount owed the county according to the lease terms and adopt written procedures for the collection of delinquent payments, and pursue payment from these companies, if necessary.

Response: We will correct.

2007-08 The Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions

During our audit testing, we noted the following:

- The encumbrance listing was incorrect at year end
- Expenditures were not charged to the correct account code and fund
- The Fiscal Court did not approve all inter-fund transfers

The encumbrances listed at June 30 were not always recorded correctly. There were four invoices for goods or services received before June 30, 2007, but not recorded on the encumbrance listing totaling \$101,751. Also, there were five invoices for services received after June 30, 2007, but included on the encumbrance listing as of June 30, 2007 in the amount of \$233,015.

During expenditure testing, we noted two instances where the incorrect account number or fund was used to record the transactions.

There were three instances where interfund transfers were not presented to Fiscal Court for approval.

We recommend the following:

- Fiscal Court review invoices closely at year-end to correctly determine encumbrances. If an invoice is for goods or services received before July 1, but unpaid at that time, then it should be recorded as an encumbrance at year-end.
- Fiscal Court review the account numbers and funds used to record transactions so the quarterly financial report accurately reflects the activities of the county.
- Inter-fund transfers should be approved by Fiscal Court.

Response: We will comply.

2007-09 The Fiscal Court Did Not Expend Thirty-Percent Of LGEA Funds On the Coal Haul Road System As Required By KRS 42.455

KRS 42.455 requires that thirty-percent of all moneys in the Local Government Economic Assistance (LGEA) Fund be spent on the coal haul road system. The LGEA revenues totaled \$1,848,897. Only \$108,500 was budgeted on the coal haul road system in this fund, but there were no expenditures for the coal haul road system in this fund.

We recommend that the county budget and expend at least thirty-percent of the LGEA funds on the required coal haul road system.

Response: A minimum of thirty % of LGEA revenue will be expended for or transferred to for the use of the Road Fund obligations.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-10 The Fiscal Court Did Not Reconcile The Balances Of Projects In Progress In The Local Government Economic Development Fund With The Ending Cash Balance

The purpose of the Local Government Economic Development Fund (LGED) is to account for projects funded by Local Government Economic Development funds. In the past, advances of these funds were made, however, grants received in the current fiscal year were on a reimbursement basis. The cash balance of this fund as of June 30, 2007 was \$1,035,480. In our review of LGED grants, we noted that requests for reimbursements included expenditures from other funds with no evidence of reimbursement by the LGED. In our analysis of current projects, we could find only \$162,717 in outstanding projects.

We recommend the Fiscal Court prepare a reconciliation of outstanding projects to the cash balance and any funds in excess be investigated and transferred to the appropriate fund, if applicable.

Response: LGED Funds will be expended for or transferred to for the use of the Road, Jail, LGEA or General Fund obligations as appropriate.

2007-11 Fiscal Court Should Request All Investment Statements And Monitor Their Activity

The county has many investment accounts that are not included on the quarterly financial statements. They do not receive most of these statements on a regular basis and do not monitor their activity. Auditors were aware of some of the investment accounts from the prior year audit, and inquired of others beginning on the first day of fieldwork. At the end of fieldwork, there were thirteen accounts discovered that were not included on the quarterly financial statement. Of these thirteen accounts, we were unable to determine if one account had activity during the year.

We recommend the county request all statements from these financial institutions on a regular basis and monitor their activity.

Response: This item is reported as the total reserve earnings applied toward the long-term debt in the liabilities section of the quarterly report. GOLD office concurs with this treatment.

C. FEDERAL AWARD FINDINGS

2007-12 The Fiscal Court Did Not Maintain Documentation of FEMA Grant Expenditures

Federal Program: CFDA# 97.036 – Public Assistance Grants
 Federal Agency: Department of Homeland Security
 Pass-Through Agency: Commonwealth of Kentucky
 Compliance: All applicable areas
 Amount of Questioned Costs: \$287,933

In prior years, the County received advance grant funds from FEMA and the Commonwealth of Kentucky for repair costs under FEMA major disasters designated 1407-DR, 1454-DR, 1475-DR, and 1523-DR, with funding provided under Public Assistance Grants, CFDA 97.036. During the current year, the County received a reimbursable grant designated 1703-DR with funding provided under Public Assistance Grants, CFDA 97.036.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

C. FEDERAL AWARD FINDINGS (CONTINUED)

2007-12 The Fiscal Court Did Not Maintain Documentation of FEMA Grant Expenditures
(Continued)

The grant agreements specify all backup documentation and cost information is to be maintained in the County's files. The agreements further state that advance funds not supported by audit or other federal or state review are subject to return to the Commonwealth of Kentucky within forty-five days upon request of the Governor's authorized representative.

In prior years, individual project files were reviewed which revealed that no documentation existed concerning the disposition of the funds received. Our current year testing revealed that some documentation is being kept. However, some documentation is still missing while other documentation maintained could not be reconciled to the amounts per project worksheets.

In addition, amounts included on the project worksheets were not reconciled to the County's appropriations ledger.

We are referring this matter to the Kentucky Department of Military Affairs, Division of Emergency Management with the recommendation that the Department determine if the funds will be required to be refunded. We recommend the County carefully review all future grant agreements and maintain records required as well as reconcile expenditures to the appropriations ledger. Due to the amount of grant funding received in the county, we also recommend the County hire a grants management administrator to coordinate, report, and maintain records on all grant activity for the County.

Response: We will comply.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2006-01	Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards (repeated)
2006-02	The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures (repeated)
2006-03	Fiscal Court Employees Used The Former Judge/Executive's Credit Card (cleared)
2006-04	Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics (cleared)
2006-05	Fiscal Court Should Approve Employee Pay Rates, Maintain Adequate Documentation For All Personnel Files, And Adjust Payroll Withholdings Timely (cleared)
2006-06	The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities (repeated)
2006-07	The Fiscal Court Does Not Maintain Proper Documentation For Capital Assets (repeated)
2006-08	Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Controls (repeated)
2006-09	Fiscal Court Should Pay Obligations Timely (repeated)
2006-10	Fiscal Court Should Annually Review The Administrative Code (cleared)
2006-11	Fiscal Court Should Monitor Ambulance Franchise Fee Collections (repeated)
2006-12	Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions (repeated)
2006-13	The Fiscal Court Did Not Expend Thirty-Percent Of LGEA Funds On the Coal Haul Road System As Required By KRS 42.455 (repeated)

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2007
(Continued)

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

- | | |
|---------|--|
| 2006-14 | The Fiscal Court Did Not Reconcile The Balances Of Projects In Progress In The Local Government Economic Development Fund With The Ending Cash Balance (repeated) |
| 2006-15 | Fiscal Court Should Request All Investment Statements And Monitor Their Activity (repeated) |
| 2006-16 | The Fiscal Court Did Not Maintain Documentation Of FEMA Grant Expenditures (repeated) |

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CASEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LESLIE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Leslie County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Jimmy Sizemore
County Judge/Executive


Mack Muncy
County Treasurer

